Overstone

Thoughts

THOUGHTS

ON THE

SEPARATION OF THE DEPARTMENTS

OF THE

BANK OF ENGLAND.

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The following remarks were drawn up and printed in the year 1840. At that time they were used only for private distribution; but as the question to which they refer has, during the present Session of Parliament, occupied a large share of the public attention, I now venture to submit them, with slight alteration, to more general perusal.

The arrival of the period at which it is competent for Parliament to revise the Charter of the Bank of England has afforded to Sir Robert Peel the opportunity for bringing forward a measure, in which it is proposed to carry out the principles advocated in the following pages, to a greater extent than, at the time of writing them, I could venture to anticipate. This measure has received the generous and cordial approval of the most distinguished men of opposite parties; and the readiness with which the Directors of the Bank of England have acquiesced in it, clearly proves their confidence in the practicability and safety of its provisions. It has been justly described by its author as the complement

of the Bill of 1819; as the further step which was necessary, to render that measure complete, and to give to the public every possible security for the effectual maintenance of specie payments. This is the true object of the measure; and by its efficacy or otherwise in this respect, the success or failure of the measure ought to be tested.

To guard against commercial convulsions is not the direct or real purpose of the Bill. To subject the paper issues to such regulation as shall secure their conformity in amount and value with, and consequently their immediate convertibility at all times into, metallic money, is the purpose to which the provisions of the measure are avowedly directed; and if the Bill further exerts any indirect influence in restraining the oscillations of commercial excitement or the fluctuations of prices, it can only do this to the extent to which mismanagement of the circulation has hitherto under the existing system been the means of originating or fomenting these evils. It has, however, been urged as an objection to this measure, that it will not effectually prevent the recurrence of commercial revulsions. The answer to this cannot be so well given as in the words of one of the ablest supporters of the measure; to whose unwearied industry, singularly acute perception, and sound philosophic views, as Chairman of the Parliamentary Com-

mittee of Inquiry, the public are mainly indebted for the successful conduct of that investigation, and for whatever public benefit may result from it. "I anticipate from the adoption of this measure a less fluctuation in the amount of the circulation—a less fluctuation in the range of prices; but I am not so unreasonably sanguine as to suppose that it will put an end to all speculation and to all miscalculation in commercial matters. Prices will necessarily vary, according to the relative supply and demand for commodities at various times. Speculators will make mistakes in their calculations as to the amount of the supply and the urgency of the demand. Prices may be unnaturally forced up, and individuals may be ruined in the collapse. All this cannot be put an end to, so long as competition exists in trade, and hope of gain influences human minds; but it is no reason why we should not remedy what is in our power, because we cannot attain every thing. We can prevent an additional stimulus being given to a rise of prices and undue speculations by the influence of an ill-regulated currency; and this it is the duty of the legislature to attempt."

Another objection has been stated:—That the Bill will unduly contract the circulation of the country, and deprive all classes of that accommodation which is requisite for the prosperity of their respective pursuits. Those who urge this

objection either omit to state their real views, or they object to the measure on false grounds. If they intend to object to that degree of contraction of the circulation, which, under any system of management, may be necessary for the security of specie payments, and are prepared to abandon the maintenance of our standard of value, let them at once openly and explicitly avow their purpose. The public mind, I believe, is made up on that point, and will not sanction their views. The evil consequences of having once consented by suspending cash payments to abandon our fixed standard of value, and the almost insuperable difficulty of effecting a return to a sound state, are now well understood. Whilst the recollection of these remains fresh in the public mind, no proposal for a repetition of so fatal an experiment will be listened to.

But, if they mean that the present Bill will cause a contraction more extensive or more inconvenient than that which has been found necessary under the present system for the protection of the bullion, the obligation of establishing this assertion by direct proof rests with those who urge the objection. I refer to the following pages for the reasons by which I am led to the conclusion that such apprehensions are destitute of any real foundation; and that the public may justly anticipate, under the operation of this Bill, a diminution, rather than an increase, of the incon-

venience and pressure which have usually characterised the last stages of a drain of bullion.

The present system, equally with that which it is proposed to substitute for it, recognises the necessity of protecting the convertibility of the notes by contraction of circulation; the only point in doubt is, by which system will the necessary result be accomplished with the least contraction of circulation, and therefore with the least inconvenience and pressure on the public. Hitherto contraction of circulation has usually been delayed till the effect of adverse exchanges has been long in operation, and the amount of bullion has been seriously diminished. This has been done, if indeed with any definite purpose, in the hope probably that the mere payment and export of bullion would prove sufficient to correct the exchanges, and to stop the drain; without any corresponding contraction of circulation. Abundant experience, however, has proved the futility of such expectations, which are altogether of an empirical character, resting upon no certain or well-defined principle. The consequence of this system has been, an abrupt and violent action upon credit and prices at an advanced period of the drain; and the ultimate evil, exhaustion of the bullion, obviated, not without great difficulty, and at the expense of severe pressure upon the public. The Bill now under consideration proposes to substitute a sys-

tem of early, steady, and continuous contraction in the place of that which has been late in its commencement, sudden and violent in its operation, and irregularly carried out. By this means, it seems almost a matter of demonstration, that the occurrence of many circumstances, by which the intensity and extent of former drains have been increased, will be prevented; and that the correction of those causes of drain which cannot be altogether obviated, will be brought into operation in an earlier stage of the drain, and will therefore be effected with less contraction of the circulation, and consequently with less inconvenience to the public.

Many other ingenious objections have been brought forward in the course of these discussions. Country Banks, it has been said by some, and even the Bank of England, cannot arbitrarily increase the amount of circulation. Competition accompanied by convertibility is an effectual and sufficient regulator of the issues—an increase in the amount of paper issues does not increase the purchasing power, and therefore does not necessarily raise prices—a restriction of the amount of paper issues will not necessarily involve a restriction of credit or of the general power of purchasing—it will only cause an increased resort to other forms of credit—speculation, when such is the disposition of the community, will have its way, and in spite of all

artificial regulations it will find the means of gratifying itself.

It is not necessary to investigate the separate fallacy upon which each of these arguments depends. This has been done with great acuteness and perspicuity in a short tract which has recently proceeded from the pen of Colonel Torrens, and to which those may safely refer who wish to pursue more refined and abstract discussions on points connected with this subject than it is the purpose of these remarks to enter upon. One general answer, however, may be given to all of them.

Since the resumption of cash payments in 1819, the power of converting the notes into specie on demand, and consequently the stability of our monetary system, has on several occasions been brought into imminent danger. The Bank has been reduced, by the continued demand for gold, to the last extremity; and the actual suspension of its payments in specie, and consequently the entire derangement of our monetary system, has been obviated rather by some fortunate accident or chance remedy than by the certain operation of any definite principle. With a metallic circulation no danger of total exhaustion of the gold could arise. As a portion of the metallic money was exported, the quantity of that which remained being diminished, the value of it would be proportionately increased;

and consequently a limited proportion only of the gold in circulation could be drawn out of the country by any foreign demand. The effect of an adverse exchange must be the same when it acts upon a mixed circulation of gold and paper; provided this mixed circulation is so regulated that the amount of it necessarily varies as the amount of a purely metallic circulation would vary. The danger therefore to which our monetary system has been exposed, and the public inconvenience and alarm which have accompanied that danger, must have arisen from the fact, that the aggregate paper circulation of the country has not been so regulated as to secure a conformity in the fluctuations of its amount with what would have been the fluctuations in the amount of a metallic circulation. To establish such regulations as shall obviate this defect is the object of the Bill now before Parliament. The issues of the Bank of England will, under the provisions of that Bill, be made to conform strictly to the fluctuations of the bullion; whilst the possible irregularities of the Country issues, so far as England is concerned, will be restricted within narrow limits. The regulation, upon similar principles, of the paper issues of Scotland and Ireland remains a matter for future legislation. The Bill therefore, though not absolutely complete in all its provisions, goes far towards placing the circulation of the country

upon a sound basis, and thus affords important additional guarantees for the effectual maintenance of our established standard of value.

The Bill of 1819 restored the depreciated currency of the country to its just value—moneta in justum valorem restituta—and the present measure gives further strength and security to that settlement, by removing those unsuspected sources of danger which subsequent experience has developed. Public gratitude is due to the Minister who has had the integrity and courage successively to introduce these measures, and thus has placed the monetary system of the country upon an honest and sound foundation. Some degree of inconvenience and pressure must arise under any system whatever for the management of the circulation. It is the price which must be paid for protection against the far more serious evils which would attend a continuous depreciation of the currency; and it will, therefore, be cheerfully submitted to by every intelligent and honest community. But a system of depreciating the currency must have its limit; it is a process which cannot be carried on to an indefinite extent. Whenever that limit is reached, then will necessarily commence the difficulty and pressure connected with the measures requisite for checking further depreciation of the currency by limiting its amount. These evils cannot upon any plan be ultimately avoided; the postpone-

ment of the necessary contraction will, however, greatly increase the intensity of them; by superinducing that ruinous injustice to extensive classes, and that general confusion and alarm, which are the certain consequences of any course of action which tampers with, and endangers the stability of, the fixed standard of value in a country. By what means the necessary regulation of the amount of the issues may be enforced, how the standard value of our currency may be secured against every danger, with the least sacrifice on the part of the public, is the question now before us. The present system relies upon delay and expedients; it endeavours to fly from, rather than to meet and overcome, difficulties; it shrinks from the prompt and manly application of the remedies, painful at first but safe and effectual in the end, which science dictates; and

> empirick-like, applies
> To each disease unsafe chance remedies.

The result is shown in the following pages. The crises of 1825, 1837, and 1839, are the fruits which we have gathered under this system.

It is now proposed to adopt a different course. The difficulty is henceforth to be met at the very moment of its commencement; and the corrective measures, founded upon intelligible and well-ascertained principles, are to be applied without interruption, until the evil has been subdued.

Contraction of circulation is to be made precisely coincident, as regards both time and amount, with diminution of the bullion; and thus it is conceived that the danger of total exhaustion, which could not befal a metallic circulation, will be rendered equally impossible with respect to a mixed circulation of gold and paper. The result remains to be ascertained; but all reasoning confirms the soundness of the grounds upon which this experiment is founded; and justifies a sanguine expectation, that, by a close and steady adherence to principle, the safety of our monetary system will be more effectually secured. Whatever may be the inconvenience to the public involved in the measures necessary for this purpose, it would be unwise in the extreme not to submit to it. There is fair ground, however, to anticipate that many adventitious difficulties, which have arisen out of the working of the present system, will be obviated; and that the essential object of the Bill will be accomplished without subjecting the public to any increase of the inconveniences which they have hitherto experienced during a drain of bullion.

July 4th, 1844.

No arguments are to be looked at with more suspicion than those, which, from the acknowledged impossibility of attaining to perfection, would infer, that it is absurd to attempt the nearest possible approximation to it. If a system be erroneous, the very consequences of its errors generally constitute the most powerful impediment to a correction of it. But if that impediment were to be held conclusive, the result would be no other than this—that the errors of inadvertency when they have prevailed for a certain time, are, upon a discovery of their nature, to be persevered in, from deliberation and choice.—*Huskisson on Depreciation of the Currency.*

If the currency consists partly of coin and partly of paper, the excess of paper, *above what the currency would be if it were coin,* must be an excess of currency, and naturally tend to depreciation.—*Huskisson's Speech on Mr. Horner's Resolutions.*

THOUGHTS,

&c. &c.

I. The only object of the proposed separation of the departments of the Bank of England is, to obtain an effectual security for the regulation of the amount of the paper circulation of the country in correspondence with the fluctuations of the bullion; such regulation being deemed to be essential for the certain maintenance, under all circumstances, of the convertibility of paper issues into specie.

The present union of Banking functions with management of the circulation, not only in the same parties but in the same system of accounts, is deemed to be incompatible with the accomplishment of this object, for the following reasons:

1. Because the paper circulation is thus issued upon mercantile securities, and there is, therefore, a very strong tendency to increase its amount with rising prices and to diminish its amount with falling prices; which is the reverse of what would take place with a metallic circulation.

2. Because, as the issuers also receive deposits as well as issue notes, they are subjected to a strong temptation to meet the demand of depo-

sitors by an improper increase of paper issues, instead of a realization of securities.

3. Because the connexion of the issuers with trade and commerce creates a strong inducement to aid and support public and mercantile credit, during a period of pressure, by improper increase of issues.

4. Because the mismanagement of the circulation seems in almost all cases to be distinctly traceable to these causes.

5. Because the union of the two functions, of circulation and of deposits, is found to cause inevitable confusion both in reasoning and in action. This appears in the measures of the Bank of England and in the defence which has been made of them—similarly as regards the country issues—in the confusion of ideas prevalent amongst the public respecting the connexion between the amount of circulation and the amount of liabilities.

" No correct notions can ever be formed upon the subject of currency, unless the business of issue be clearly separated in the reader's mind from the other transactions which form the real and legitimate employments of the Banker."—*Norman's Remarks*, p. 32.

A regulation of the amount of the paper circulation of the country in correspondence with the fluctuations of the bullion is deemed to be essential on the following grounds :—

1. A metallic circulation could never be drained out. Because as the drain went on, the decreased amount would produce a continually increasing value of the circulation ; which by its effect upon the rate of interest, upon the state of credit, and upon prices, would assuredly stop the drain at some stage of its progress.*

2. The case will be the same with a paper circulation, provided the paper issues be contracted as the metallic money would have been.

3. But, if the paper be not contracted upon this principle, the security for the certain stoppage of the drain is lost. Suppose the paper circulation to be thirty-six millions, against which twelve millions of bullion are held in reserve. Suppose further this amount of circulation to be excessive as compared with the currencies of other countries, and that, consequently, a drain of bullion ensues.

If under these circumstances the paper be con-

* This exportation of bullion can never continue long, because the transmission of a comparatively small quantity of that metal which forms the standard and currency of a country, not only operates, like that of any other commodity, to diminish in so much the balance of debt to other countries ; but likewise to force the exportation, and to diminish the importation, of all other goods ; and thus more rapidly to improve the exchange, than the export of any other commodity to the same amount. As the exchange improves, the exportation of bullion of course ceases.—*Huskisson on Depreciation of the Currency*, p. 97.

tracted as the bullion goes out, this contraction will soon equalise the value of our currency compared with that of other countries, and thus the drain will be stopped.*

But, if the paper circulation be not contracted in correspondence with the decrease of the bullion, there can then be no certainty that the value of the currencies will be thus equalised; and, consequently, there can be no security that the bullion may not be entirely drained out.

The larger the amount of the bullion, the greater, no doubt, becomes the difficulty of draining it out; it will require a longer continuance of the drain, or a more intense drain.

But bullion, equal to the amount of the whole circulation, may be drained out, if its place be continually supplied by paper issues, and the total amount of the circulation be thus kept undiminished.

Thus it appears that contraction of the circulation in correspondence with the decrease of the bullion is the only measure which can afford effectual security for stopping the drain of bullion.

* I do not think that the suspension of cash payments was at that time (1797) of absolute necessity; I have never entertained the least question but that if the Bank had continued to pay, *and to suppress its notes as it issued treasure*, the crisis would have been got over.—*Tooke's Evidence*, 1832, *Qu.* 3827.

It is equally necessary for the effectual *recovery* of the requisite amount of bullion after it has been parted with.

It may be asked of those who object to the principle that a paper currency should vary directly as a metallic currency, what principle they would substitute for it?

To this no satisfactory or sufficient answer can be given by them. They must trust to the chapter of accidents, and leave the stoppage of the drain to depend upon circumstances over which they cannot pretend to exercise any certain, definite, or efficient controul.

But it is said that a large store of bullion, and a continuance of the present system of acting upon a blended account of circulation and deposits, will enable the Bank of England to delay the period of commencing the contraction of circulation, and thus render it more 'convenient' and 'accommodating' to the public.

The effects of *postponing* the period of contraction and of subsequent expansion are very important.

Contraction of circulation acts—first upon the rate of interest—then upon the price of securities—then upon the market for shares, &c.—then upon the negociation of foreign securities—at a later period, upon the tendency to enter into speculation in commodities—and lastly, upon prices generally. These effects may be retarded or

accelerated by other circumstances; possibly they may not occur precisely in the manner here stated; but this is something like the order of succession in which the effects of contraction of the circulation are gradually developed.

The case is similar, when the action is in the opposite direction; that is, when the circulation is increasing.

Interest is first affected; speculation in commodities and prices are the last to be affected.

An attentive consideration of this process will enable us to perceive the important difference between contraction of circulation at the commencement of a drain, and contraction resorted to at a more advanced stage of the drain. And it will probably lead us to doubt, whether the convenience of the public will be promoted, and the severity of the action upon the rate of interest, upon the state of credit, or of confidence, will in the end be diminished, by any plan, which proposes to mitigate the effects of contraction by postponing the period of its commencement. It must be observed, moreover, that to whatever extent the rule of contracting the paper issues in precise correspondence with the decrease of bullion is suspended or modified, to that extent uncertainty and danger, with respect to the convertibility of the notes, are introduced.

There can be no fixed and definite rule to determine the time and extent of the proper con-

traction of paper circulation, except correspondence with the bullion.

Without this rule, all must be left to the irregularity and uncertainty of individual discretion. The manager of the circulation must undertake to foresee and to anticipate events, instead of merely making his measures conform to a self-acting test.

In the exercise of such a discretion, the manager of the circulation, be he who he may, we may safely say will, in nine cases out of ten, fall into error; whilst the interests of the whole community, and the fate of all mercantile calculations, will be dependent upon the sound or unsound discretion of some individual or body; instead of depending upon their own prudence and judgment, exercised under the operation of a fixed and invariable law, the nature and provisions of which are equally known to every body.

II. Let us now proceed to examine the management of the circulation during the last few years, with the view of ascertaining, if possible, how far that management has deviated from the course which must have been pursued under the separation of the departments, and what have been the effects of such deviation.

	Bullion.	Bank Circulation	Aggregate Circulation.	Country Issues.
*1833.	£	£	£	£
Septem..	11,078,000	19,780,000	29,932,000	10,152,000
1835.				
Septem..	6,261,000	18,240,000	28,660,000	10,420,000
December	6,626,000	17,321,000	28,455,000	11,134,000
1836.				
March ..	7,701,000	17,739,000	29,186,000	11,447,000
June	7,362,000	17,899,000	30,101,000	12,202,000
Septem..	5,719,000	18,147,000	29,880,000	11,733,000
December	4,545,000	17,361,000	29,372,000	12,011,000
1837.				
March ..	4,048,000	18,178,000	29,209,000	11,031,000

In the year 1837 commercial and monetary pressure occurred. It is important to trace accurately the progress of the circulation previous to that period.

In September, 1833, the bullion, the Bank circulation, and the aggregate circulation of Bank and country issues, were all at their *maximum.*

* Since these remarks were written, further returns, more accurate in detail, respecting the bullion and circulation, have been furnished in the Appendix to the Report of the Committee on Banks of Issue, 1841. I have not, however, thought it necessary to recast the above statement; although there exists some difference in actual amounts between it and the later returns, there is no real difference whatever in the character of the statements, or in the inferences justly deducible from them. I place the facts and the reasoning before the public *now,* in the form in which they were submitted to the more limited circle of my private friends in 1840.

At the same moment the country issues were at their *minimum.*

By the month of December, 1836, the bullion had sustained a *decrease* of £6,533,000, the Bank circulation of £2,419,000, the aggregate circulation of £560,000, whilst in the same period the country circulation had *increased* £1,859,000.

In the following three months, viz. from December, 1836, to March, 1837, the bullion sustained a further *decrease* of £500,000; but the Bank circulation was *increased* £800,000. The aggregate circulation was *diminished* £170,000; the country circulation was *diminished* £1,000,000. It is further to be observed, that during this period, within which the bullion passed by a steady and almost uninterrupted course of decrease from its *maximum* to its *minimum* point,—a *decrease* of more than *sixty* per cent.—

The aggregate circulation did not vary more than *five* per cent.; and that variation was not in accordance with the bullion, but very irregular—the period of maximum amount occurring when the bullion had sustained a large decrease.

The Bank circulation varied *twelve* per cent.; and more nearly, though by no means strictly, in accordance with the bullion. The maximum point corresponds with that of the bullion; and again, in December, 1836, we find the bullion and the Bank circulation both at a low point.

The following three months, however, present a very different phenomenon—a farther *decrease* of the bullion with a very large *increase* of Bank circulation.

The country issues varied *twenty* per cent., and with no sort of correspondence to the bullion or to the Bank issues. The *minimum* of country issues corresponds with the *maximum* of bullion and of Bank issues (September, 1833). The *maximum* of country issues, as also of the aggregate circulation, occurs when the bullion has proceeded about half way in its course of *reduction* (June, 1836). The country issues are again very near their *maximum* point (in December, 1836) when the bullion has sustained a serious and rapid further *reduction*, and when the Bank circulation is almost at its *minimum* point; and during the three following months,—within which we have already observed that the Bank circulation underwent a most remarkable *increase*—we find the country circulation undergoing an equally extraordinary *decrease*. So that the result is, that with violent and opposing fluctuations by the Bank and Country circulation, between September and December, 1836, and again between December, 1836, and March, 1837, the aggregate circulation varies but slightly, although during this time the bullion, previously very much reduced, continues to diminish steadily and largely.

Such are the facts.

What are the inferences to be deduced from them?

1. That there exists no efficient connection between the fluctuations of the Country Issues and those of the Bank.

2. That by the conflicting action of those two sources of issue, the aggregate circulation is maintained at a comparatively *uniform amount*, during a period when the long-continued and heavy drain of the bullion required a corresponding *contraction* of circulation.

3. That consequently the aggregate circulation cannot be considered as subject to any management or regulation which has reference to the bullion.

4. That in consequence of the absence of early and steady contraction of the circulation, the decrease of the bullion remains for a long time unchecked, and therefore goes to a greater extent than it otherwise would do; that consequently, to replace the Bank in a satisfactory position, a larger amount of bullion has to be drawn back to the country, and to effect this there must be a correspondingly heavier pressure upon trade and upon prices, either in amount or in duration. The effect of early contraction of circulation in strict accordance with the bullion, would be to keep the fluctuations of the bullion within comparatively small limits both as to amount and length of conti-

nuance; and in proportion as those fluctuations are rendered short in their continuance and of slight amount, their pressure upon the Money-market and trade, it is fair to conclude, would be light.

5. Had the aggregate circulation been steadily contracted in correspondence with the bullion, from the maximum period of both (in September, 1833), is there not the fairest and most reasonable ground to conclude, that such timely and steady contraction would have been gradual and easy in its effects—that, commencing before any feeling of alarm had arisen, it would have worked more easily and not less effectually; and that by putting an earlier restraint upon the efflux of bullion, it would have kept that action within smaller limits, and thus probably have obviated a large part of the pressure of 1837? Compare such supposed contraction of the aggregate circulation with what really took place.

	Bullion.	Bank Circulation.	Aggregate Circulation.	Country Issues.
1833.	£	£	£	£
Sept. ..	11,078,000	19,780,000	29,932,000	10,152,000
1834.				
March ..	9,829,000	18,700,000	28,891,000	10,191,000
June....	8,645,000	18,922,000	29,440,000	10,518,000
Sept. ..	7,693,000	19,126,000	29,280,000	10,154,000
Dec.	6,720,000	18,304,000	28,963,000	10,659,000
1835.				
March ..	6,536,000	18,311,000	28,731,000	10,420,000
June ..	6,150,000	18,460,000	29,399,000	10,939,000

Here is a period of two years, during which the bullion suffers a continuous and heavy drain, being diminished £4,928,000. The Bank circulation is diminished £1,320,000, being a decrease in proportion to that of the bullion of little more than twenty-five per cent.; and that decrease occurring very irregularly; not in the steady and uninterrupted manner in which the bullion decreases. The aggregate circulation is diminished only £533,000—or about eleven per cent. upon the decrease of the bullion; and this decrease again occurred very irregularly.

The country issues increased £787,000, being an *increase* in the proportion of about one-sixth to the *decrease* of the bullion.

This course of things terminated in the pressure and difficulties of 1837. What would have been the effect of a different course? Had the Bank and Country Issues been both contracted, in such manner that the aggregate circulation should in its fluctuations have followed the bullion; the *certain and undeniable* effects would have been, a contraction of circulation commencing early, proceeding gently and equably, acting during a period when there was no alarm or apprehension respecting the state of the bullion or of trade, and producing a gradual, moderate, but continuous restraint upon confidence, rate of interest, and speculation, before they had reached the extent to which they were permitted to go.

The *probable*, if not certain, effects would have been, a more early stop put to the drain of the bullion; a shorter continuance therefore of the monetary and mercantile pressure; a correction of the evil before alarm had been excited, and the difficulties of internal drain upon the bullion had been added to those of external demand; the corrective action being regular and steady, would have been more effective and less inconvenient than when it is irregular and abrupt; the management of the circulation being conducted under a fixed rule, known to everybody, those unreasonable hopes and fears, which an uncertain course of action always produces upon the minds of individuals according to their respective characters, would have been obviated; every person, knowing certainly what was to be expected, and feeling from the beginning a practical warning of it, would have taken their precautionary measures accordingly, in due time and with a steady purpose; thus probably calm, deliberate, and judicious preparation from 1833 to 1836, whilst the bullion decreased from £11,000,000 to £6,000,000, would have obviated the confusion and despair which ensued in 1837; when the alarm, occasioned by a very low state of the bullion, acted abruptly upon an unprepared community. The drain also upon the bullion having been stopped at an earlier stage, the amount of bullion parted with, and therefore the amount of bullion

which it was neccessary that we should recover, would have been less; and consequently a less pressure upon the mercantile world would have been requisite for this purpose.

III. The next period of commercial and monetary pressure, principally the latter, occurred in 1839.

Let us now examine the progress of the circulation previous to that crisis.

	Bullion.	Bank Circulation.	Aggregate Circulation.	Country Issues.
1838.	£	£	£	£
March ..	10,015,000	18,600,000	29,526,000	10,926,000
June	9,772,000	19,047,000	30,792,000	11,745,000
Sept.	9,615,000	19,665,000	31,029,000	11,364,000
Dec.	9,362,000	18,469,000	30,694,000	12,225,000
1839.				
March ..	8,106,000	18,298,000	30,557,000	12,259,000
June	4,344,000	18,101,000	30,376,000	12,275,000
Sept.	2,816,000	17,960,000	29,044,000	11,084,000

The bullion was at its *maximum* in March 1838, and continued to *decrease* steadily from that time.

The Bank circulation and the aggregate circulation continued to *increase* largely till September.

The country issues continued to *increase* largely till June, 1839; and it is remarkable that they were at their *minimum* point when the bullion was at its *maximum* (March, 1838) and they *advanced* to their *maximum* point whilst the bullion was undergoing a *decrease* of *sixty per cent.* (June, 1839).

In the following three months (June to September, 1839) whilst the bullion sustained a great further decrease, to an alarmingly low point, the country issues at last began to decrease and rapidly—whilst the Bank circulation during this period remained almost undiminished.

But the most important consideration connected with this period arises from a comparison of the fluctuations of the aggregate circulation with those of the bullion.

Whilst the bullion is *reduced*, uninterruptedly, from 10,000,000 to 2,800,000, that is, *seventy-two per cent.*;

The aggregate circulation is *reduced*, very irregularly, less than £500,000, i. e. under *two per cent*.

Even that reduction is effected only in the last quarter. From March, 1838, to June, 1839, the aggregate circulation is *increased* £850,000, or nearly *three per cent.* whilst the bullion is *diminished* £5,660,000, or nearly *sixty per cent.*

Under these circumstances can it be a matter of any surprise that the bullion was nearly exhausted? What was to stop the drain? Clearly not reduction of the circulation; for that was increased.

If it be said that the drain was to be stopped by paying away bullion until the demand for it was satisfied; we must first ask, what security the country could have, that any given amount of bullion would be sufficient for that indefinite pur-

pose? And second, by what process, but that of contraction and pressure, is the bullion so paid away to be recovered?

Is it not better, then, by early contraction to put some restraint upon the drain, and thus prevent the efflux of a portion of the bullion; rather than incur the risk of a total exhaustion of the bullion, and the subsequent necessity of submitting to the heavy pressure which must necessarily attend the measures requisite for recovering back so large an amount? By this means the additional evils are avoided, of general alarm, want of confidence in the safety of our monetary system, *internal* drain of gold, further pressure on the exchanges by sale of English bills by foreign holders, prolongation of the period of pressure, &c.

But what was it which in reality did put a stop to the drain?

The Bank circulation underwent no diminution of any consequence; and the decrease of country issues in the last quarter cannot be considered as an efficient cause, it was rather an effect.

The drain was stopped by the prevalence of general apprehension and alarm, which checked confidence and credit, and rendered a given amount of circulation less efficient. This alarm arose from a knowledge of the exhausted state of the bullion, and of the heavy drain still in operation; which it might be expected would

necessitate some extraordinary and very severe measure on the part of the Bank.

Without this knowledge of the state of the bullion, it is not unreasonable to believe, that the public mind would have remained in a state by which credit and the efficiency of the circulation would have been unaffected; and the amount of the circulation being also undiminished, the drain of the bullion would have continued until the stock was absolutely exhausted. Hence we see the importance,

First, Of the publication of the accounts of the Bank, from which many persons apprehended the greatest danger. It is to the knowledge which the public derives from them, that we owe, in a great degree, the preservation of our monetary system during the year 1839.

Second, Of the one measure by which the Bank of England effectually contributed to check the efflux of bullion, viz. raising the rate of interest; because by this act she gave warning, though too tardily, to the public, and strengthened and confirmed that alarm which had become necessary for our preservation. We thus see the value of this measure, which some persons have most strangely represented as having been wholly inefficacious; and also the policy of that change in the law which has admitted of such a step.

It is sometimes said that a rise in the rate of

interest is inefficacious, because it is often followed by an increased demand on the Bank for discounts. The answer to this is—First, that the demand would probably be greater if the rate were not raised. Second, and especially, that the measure tends to produce a contractive effect upon the country circulation, and still more on the state of confidence and of the auxiliary currency which rests upon that confidence.

Third, We may clearly deduce from these events, the probable inefficiency of any plan for enabling the Bank to soften or postpone the contraction of circulation as the bullion diminishes.

The drain must either be stopped gradually by an early and timely contraction of circulation, or it will in the last stage be stopped by alarm approaching to panic on the part of the public.

The *advantage* attending the first course is, that the restrictive action is early, gradual, founded upon principle, certain in its effect, always under control, its nature and its extent known to everybody.

The *evil* attending the latter course is, that it is late; that instead of preceding and preventing, it springs out of, alarm; that it is uncertain in the extent of its action and under no control; that it acts upon an evil grown more extensive and strong from longer duration, and therefore requiring more severe pressure to correct it; that in the very act of restraining the foreign

drain, it incurs the hazard of creating an *internal* drain from alarm, and also an uneasy feeling on the part of foreign holders of English bills of exchange, which induces them to withdraw their investment from these securities, and thus produces a further derangement in the state of the exchanges.

Suppose that, during 1838, the aggregate circulation, instead of increasing largely, had been diminished in correspondence with the bullion, and consequently had stood in December, 1838, at £28,873,000 instead of £30,694,000, at which we find it at that time; is it possible to doubt that we should have been better prepared to face the monetary difficulties of 1839, or that those difficulties would by this means have been materially diminished in their severity?

Such contraction occurring in 1838 would have produced none but easy, salutary, and even acceptable restraint. The expansion which occurred instead of it, we can hardly doubt, laid the ground for greater subsequent mischief; and the public alarm which occurred in 1839, from the absence of contraction in 1838, produced greater pressure upon the money-market with much less certain protection to our specie payments.

IV. From this review of the progress of the circulation in connection with the two monetary crises of 1837 and 1839, it is scarcely possible

to doubt, that those crises were intimately connected with mismanagement of the circulation; and that a large portion of the intensity which characterized them, is attributable to the non-contraction of the aggregate paper circulation of the country in correspondence with the decrease of the bullion *in its early stages.*

We have the authority of Mr. Tooke in his History of Prices, vol. iii. p. 90,* that "earlier measures of contraction would have obviated the necessity for more stringent ones later."

We have further the same authority that the drains of 1782-3 and of 1795-6 were surmounted and the exchanges effectually stopped by a resolute and extraordinary degree of contraction of the circulation; though they arose from payments for foreign corn, support of troops, subsidies, &c. —p. 71.

We have also the same authority for the neces-

* "Credit, indeed, is taken by the Bank of England, for having, although at the risk of suspension, preserved the commerce of the country from the injury to it which might have resulted from earlier and more effectual measures for the contraction of the circulation. But there is every reason to believe, that *earlier measures for contraction*, on the part of the Bank, would have *obviated the necessity for more stringent ones* later, and that the *commerce of the country* would now be *in a more satisfactory position* if the *proper legitimate measures for regulating the exchanges* had been *sooner adopted.*"—*Tooke's History of Prices*, vol. iii. p. 90.

sity of strictly maintaining paper upon a level with the value of gold. "It is the business of a Bank that administers a paper currency in exchange for gold, or in lieu of gold, to have no other end in view than that of preserving its paper *strictly*, *correctly*, and *invariably* upon a level with the value of gold."—*Tooke's Evidence*, 1832, *Qu.* 3830.

"I agree with him (Mr. Mushet) in the general rules which he would have proposed for the management of the circulation of paper by the Bank of England; he considered, as I do, that when there was a drain upon its coffers, *it should suppress the paper in proportion as it was called upon for the gold.*"—*Ibid. Qu.* 3844.

Upon the two recent occasions we have had no such 'resolute contraction of the circulation,' and consequently, though there have been no foreign subsidies to provide for, we have had imminent danger to our monetary system.

But have we avoided the other evil, pressure upon the money-market and upon trade? Undoubtedly we have not.

In the management of the circulation we have forborn to contract, upon the commencement of a drain upon the bullion, and we have vacillated in our action throughout. The consequence has been the usual result of such conduct; we have lost the advantages and incurred the evils of both courses; we have suffered heavy pressure, and we

have not avoided imminent danger to our specie payments.

It is not denied nor doubted by any person, that contraction of the circulation in strict accordance with the decrease of the bullion would effectually protect the bullion from exhaustion. But it is contended, that such correspondence of fluctuation, strictly enforced, would produce more sudden and violent changes in the state of the money-market and of credit than occur under the present system.

"Although over-banking and over-trading might not, under a rigid metallic variation, proceed so far as they might in the case of an accompanying increase of paper-money, the transition to a state of discredit, although perhaps, but not certainly, within a shorter range in point of time, would in some instances be more severe; that is, the transition from a low to a high rate of interest might be more abrupt, and to a higher rate, and consequently a revulsion of credit, if there had been previous over-trading, would be more sudden and more severely felt."—*Tooke*, p. 179.

"The grounds which I have ventured to suggest for hesitation as to the policy of adopting the separation of departments, is the question, whether there are not considerations of the *greater convenience* attending the working of the present *less scientific* system."—p. 252.

"The more anomalous but more *accommodating system*, which by the union of circulation and deposits allows the action of the foreign exchanges to operate upon the bullion in such a manner as that, if the amount of it be of sufficient magnitude, the *money-market* may be *little* if at all *disturbed*."—p. 252.

The grounds upon which it may be doubted whether greater occasional revulsions of credit would arise from separation of the departments, have been stated in the preceding remarks; those who read them must form their own judgment on that point.

It is however satisfactory to be able to find, in the same work from which the foregoing passages are quoted, some consolation under severe action upon the rate of interest and the state of credit, should such occur; and it is also a little curious to measure the value of those considerations of *greater convenience* attending the working of the present less scientific but more *accommodating* system, by principles which are laid down in the same work.

"There were periods, indeed, even during the restriction on cash payments, when a rate of discount by the Bank of eight or ten per cent. would have been considered preferable to some of the limitations which then prevailed; and among others, the length of the bills being confined to sixty-one days, instead of the present limit of

ninety-five days. At the same time, *I am not at all prepared to say that there are not some advantages attending this more severe mode of limitation.*

"In an ambitious and enterprising commercial community, among whom there is generally a *tendency* to *outrun* the *due bounds of credit*, inevitably leading to a reaction, it is *desirable* to hold out a constant memento against the risks of over-trading; and this is *most effectually done* by the occasional recurrence of periods in which there is a *difficulty*, or at least a *diminished facility*, in *realizing the best securities*."—p. 138.

"The claims of the public require that the due regulation of the currency should not be made subservient to considerations of partial convenience to particular branches of the trading community. I say partial convenience to particular branches, because it cannot be too often repeated that an *interference with the due regulation of the currency can never be for the general benefit of trade*."—p. 137.

"There is reason to believe that the trade and manufactures of the country would be generally in a sounder state if they depended less upon what is called banking accommodation; and that they have been more *injured* than *benefited* on every occasion in which (except 1825) the Bank has departed from its own supposed rule of *regulating its issues by the exchanges*, in order, as

alleged, to *prevent inconvenience*, or *discredit to the commerce of the country*."—p. 113.*

V. The revulsion of 1837 was the consequence of a long preceding period of prosperity, which had generated excessive credit, over-trading, and over-banking.

These effects were exhibited more particularly in excessive credits given to the United States, in the negotiation in this market of American, Dutch, and other foreign securities to a great amount, in the rapid and excessive expansion of Joint-Stock Banking in this country, and excessive credits given by them.

* "Do you conceive that a SUDDEN fall of prices is productive of less distress than a gradual fall of prices?—I am not quite clear on this point. I know, however, many instances in which persons have been ruined by a gradual fall of prices, who would have been safe if it had been a sudden one; nothing is more injurious to parties who continue to hold than a long protracted fall.

"Is it your opinion that if the fall in prices is equal in amount, it is *less detrimental* to commerce that it should take place *at once* than that it should take place gradually?—In a very large proportion of cases I should say it is better that it should take place immediately; there never is, in any particular article of any trade, a sound state till the impression has become perfectly general and confident in all classes of consumers that the price has seen its lowest; every body knows, who has any experience in trade, that the moment such impression prevails there is an end of distress among the persons concerned in that particular article."—*Tooke's Evidence*, 1832, *Qu.* 3882-3.

From 1833 to 1836 there were established in England 72 Joint-Stock Banks, in Ireland 13 ditto.—*See H. Palmer on Causes*, &c. p. 10.

Had the bullion been strictly followed as a guide in regulating the amount of the paper circulation, the check to this course of things would have been applied at an early period, in Sept. 1833, and would have been kept in steady operation until the rectification had been effected.

But under our present more "convenient and accommodating" system, the aggregate paper circulation was kept at its full amount during a heavy drain of bullion from September 1833 till 1837; no attempt to check that drain was made through the medium of management of the circulation:—

The result was the crisis of 1837.

The next crisis, i. e. the drain upon the bullion in 1839, was the result of several circumstances:—

1. Large importation of foreign corn.
2. Large importation of American securities.
3. Large mercantile credits given to America.
4. Peculiar state of credit in France and Belgium.
5. Peculiar circumstances connected with the cotton speculation.

"The importation of the raw cotton had been principally paid for by advances which the consignees on this side obtained upon it."—*Tooke*, p. 74.

Here, again, had the management of the circulation followed the indications of the bullion, the check to the importation of foreign securities, to the excessive mercantile credits, and to the advances made to the consignees of cotton, would have been applied *early in* 1838.

Under the present system, however, the aggregate circulation continued to increase in the face of diminishing bullion, and was higher in June, 1839, than in March, 1838.

The result was the exhausted state of the bullion, and the general alarm of the autumn of 1839.

Can it be doubted, that by applying contraction of circulation simultaneously with contraction of bullion, at the commencement of 1838, the evil would have been arrested at an early period, and, in that case, could never have reached the height to which it attained under the opposite course of procedure?

The case appears to have been the same with respect to the convulsion of 1825.

	Bullion.	Bank Circulation.
1824.	£	£
February	13,810,000	19,736,000
August	11,787,000	20,132,000
1825.		
February	8,779,000	20,753,000
August	3,634,000	19,398,000

The returns of the country issues during this

period are not given, but it is beyond all doubt that they underwent a very large increase.*

Here, again, is a crisis preceded by a long continued *decrease* of bullion and a large *increase* of paper circulation. The panic of 1825 was the result of this course; but had the circulation been contracted with the bullion from the beginning of 1824, can any person entertain a doubt, that the revulsion of credit in the latter part of 1825 would have been infinitely less sudden and less severely felt?

It ought to be observed, with respect to the above statements, that, during 1834, 5, 6, contracts were successively entered into for the substitution of Bank of England notes for those of private issuers; and allowance therefore, increasing the country issues and diminishing the Bank

* Mr. Tooke, in his pamphlet of 1826 (p. 39), estimates this increase to have been between six and seven millions. This probably is an exaggerated estimate.

Lord Liverpool, in his speech, February 17, 1826, states the country circulation to have been,

1823......	£4,000,000
1824......	6,000,000
1825......	8,000,000

Mr. Burgess, in his evidence, (1832) qu. 5165, states that "the circulation of Country Bankers was at the lowest in the year 1823, and the highest in the year 1825," although he estimates the increase at only 16 per cent. From these conflicting estimates it is sufficiently evident that the country circulation increased largely during the period in question, but that the amount of the increase cannot be exactly ascertained.

issues *pro tanto*, ought to be made.—*See Norman's Remarks*, p. 78.

To the aggregate circulation of the Bank of England issues and the country issues, those of Scotland and Ireland ought to be added. But unfortunately we are without the means of ascertaining the amount of them.

We learn, however, from a statement given in Mr. Norman's " Remarks," (p. 77,) that the paper circulation of Ireland *increased* from December, 1833, to December, 1836, a period of continuous and heavy *decrease* of bullion.

Circulation of Ireland,	Dec. 1833,	£5,081,000
Ditto,	Dec. 1836,	5,864,000
	Increase . . .	£ 783,000

Of the fluctuations of the Scotch issues we have no means of obtaining any knowledge.

VI. By the statements, however, which are before us, the following facts are established beyond the possibility of question :—

1. That both the convulsions of 1837 and 1839 were preceded by a long-continued drain of bullion, lasting, in the first instance, three years, with a slight interruption; in the second, eighteen months; and, in both cases, commencing slowly, and acquiring increased rapidity and violence as it advanced.

2. That in both cases the drain of bullion was met by an increase of the Country Issues and of the aggregate paper circulation of England; whilst the Bank circulation fluctuated very irregularly, and in each case stood as high when the bullion was reduced to a low point, as it did when the bullion was at its maximum.
3. That in both cases the crisis was preceded by a remarkable advance of the country issues from a minimum to a maximum amount during the drain of bullion.
4. That so far as we have any means of forming a judgment of the Irish paper circulation, we are led to conclude that its action was of a similar character to that of the paper circulation in England.
5. That there exists no reason for supposing that the Scotch circulation differed in this respect from that of England and Ireland.
6. That this conflicting action of decrease of bullion with increase of circulation was, in both cases, followed by a crisis characterised by danger to our monetary system, extensive destruction of credit, and a state of general pressure and alarm.*

* Mr. Hawes, in his speech against the second reading of the Bill, which he has since published, asserts, in the most unqualified manner, that "no tangible proof whatever has been adduced of an excess of issues, or of a depreciation of the paper circulation;

With those events let us now contrast another period, during which *a decrease of bullion is accompanied by a decrease of circulation correspond-*

nor has any injurious result been traced to the operation of the present system which can be shewn to be within the reach of legislation, or which may not be more safely left to be corrected by the results of increased intelligence and experience." I submit to his consideration the monetary events preceding, and connected with, the crises of 1825, 1837, and 1839. A careful investigation of these, I think, must lead a candid mind, really seeking the truth, to qualify, if not indeed altogether to abandon, the above assertion.

I may avail myself of this opportunity to remark that the same speech (p. 19 to 23) evinces a most extraordinary misconception of the true meaning of the rule which requires " the aggregate circulation of the country to conform to the fluctuations of the bullion," and of the results which would arise under the application of that rule. The advocates of this principle contend, that the aggregate circulation should sustain an increase or decrease of amount, equal to the increase or decrease of the amount of the bullion; and to produce this result, or something very nearly approaching it, is the object of the present Bill. But Mr. Hawes interprets the rule as requiring, that the increase or decrease of the aggregate circulation shall be, not equal to the increase or decrease of the bullion, but that it shall be in the proportion which the total amount of the circulation bears to the amount of the bullion. From this misconception Mr. Hawes deduces consequences, and charges them upon the advocates of the rule in question, which,

ing steadily with the bullion in its progress, though not to an equal amount.

	Bullion.	Bank Circulation.
1830.	£	£
August	11,150,000	21,464,000
1831.		
February	8,217,000	19,600,000
August	6,439,000	18,533,000
1832.		
February	5,293,000	18,051,000 *

On this occasion the drain upon the bullion does not, as in all the other cases, terminate in a crisis.

" Although during this period the bullion in the Bank was diminished from twelve millions to five millions, yet, in the progress of this reduction, as there was no excitement, and no undue credit given by the banks in the interior of the country, the interest of money *gradually* rose from two-and-a-half to four per cent.; and then *without discredit or distrust of any kind*, the bullion returned into the coffers of the Bank, and

however, they utterly repudiate; because such results are altogether inconsistent with the principles of their reasoning, and will not arise under a correct application of the rule for which they contend, nor under the provisions of the Bill against which the speech in question is directed.

* See Appendix, No. 28, to Report from Select Committee on Banks of Issue, 1840.

money nearly resumed its former value."—*Horsley Palmer on Causes, &c.* p. 6.

In this case, it is not improbable that a complete statement of the paper circulation of the whole kingdom would show a fluctuation of amount very nearly approaching to a strict correspondence with the bullion.

It is very much to be regretted that we have not the data from which to form such a table.

Enough, however, has been stated to establish this very remarkable fact,

That in three out of the four occasions on which the bullion has sustained a very heavy drain, since the resumption of cash payments in 1819, the paper circulation has been increased rather than diminished; and these have all terminated in severe pressure upon credit and trade, viz. in 1825, 1837, 1839. Whilst in the remaining case, the drain of bullion was met, from the commencement, by a corresponding decrease of paper circulation, and this passed off *without discredit or distrust of any kind.*

VII. Upon a due consideration of these facts, the public is called upon to come to a decision upon two questions of the utmost importance.

First, Whether, under the existing system of paper issues, the fluctuations of the amount of the paper circulation of the kingdom can be properly regulated.

Second, Whether a separation of the function of issue from that of banking, and a consequent regulation of the amount of the paper issues in accordance with the fluctuations of the bullion, would augment or diminish the intensity and extent of those fluctuations, as well as tend to secure greater or less steadiness to the state of confidence and credit, and greater or less security to our monetary system.

Of the practical difficulties which may attend the attempt to carry on the separated departments under the superintendence of the same body, those only who have had experience in the management of the Bank can form a competent judgment.

The principle, however, of making the fluctuations of the paper issues conform to those of the bullion seems to be essential to the good management of the circulation; and without a separation between the currency and banking departments this principle can hardly be carried out with effect.

To form a just judgment of the manner in which the regulation of the paper circulation in accordance with the bullion would work; the principle must be supposed to be applied, not in the advanced stage of the drain of bullion, but in its commencement; before excessive confidence and credit have continued long enough to work their full measure of mischief; before the drain has become rapid in its progress or has

materially diminished the stock of bullion; and before a knowledge of these circumstances has produced alarm and apprehension upon the public mind. It is upon this *early* application of the principle, and the *steady* adherence to it from the outset, that the safety and efficacy of its action depends. If by procrastination at the outset, we once part company from principle, the attempt at a subsequent stage to commence a strict adherence to it may no doubt be found difficult, and not free from danger.

Hence arises the importance, and, indeed, the necessity, of applying the principle, if at all, to the whole paper circulation of the kingdom, and not to that of the Bank of England alone. If the contraction of the issues of the Bank be met, even temporarily, by an expansion of the issues of other parties, the amount of the aggregate paper circulation may be kept up during the first stages of the drain upon the bullion; and the critical opportunity, at which alone the principle can be brought into operation with perfect confidence, may be lost.

VIII. One difficulty has been suggested as liable to attend the plan of a strict regulation of the paper circulation in accordance with the bullion, which deserves attention. In this country an immense mass of liabilities exist which are subject to be paid on demand, and if, in consequence of panic

or any other cause influencing a great number of persons simultaneously, the payment of a large portion of these liabilities should be demanded at the same time, either the circulation must be largely increased, or the parties liable to such demands must be seriously embarrassed.

Upon this point it may be remarked—

1. That such panics, as are supposed in this case, have usually, if not invariably, originated in a bad state of the paper circulation; and that a regulation which shall secure a perfectly safe and sound system of paper circulation, will by so doing greatly reduce the probability of the occurrence of such a panic.

2. That some loose habits of business and unguarded forms of obligation have become prevalent, in consequence of the 'accommodating' nature of our paper circulation; and that probably all parties would be rather benefited than injured, by an increased degree of care and strictness on these points. Institutions to receive the deposits of small capitalists and allow an interest upon them are no doubt highly convenient and beneficial to the public; but it admits of very reasonable doubt, whether it is a safe or an expedient system, to prevail throughout a country, of holding those deposits to an immense amount, payable, not on moderate notice, but immediately on demand; an obligation which, if the demand

be made by the mass of depositors simultaneously, it would obviously be impossible to fulfil.

A little more strictness in the management of our paper circulation might probably lead to some more prudent regulations on this subject; a change which might be effected with no inconvenience, and by which probably all parties would in the end be benefited.

3. That the difficulty under consideration is not created by the substitution of a paper for a metallic currency—it is not a difficulty peculiar to a paper currency, but would equally exist with a metallic circulation.

4. That in other matters we are habitually and daily incurring a similar danger; without, however, deeming such liability to constitute a sufficient objection to the system which necessarily involves it. For example—the use of a paper currency, convertible but not represented by an equal amount of gold in deposit, necessarily involves the danger, arising from panic or political causes, and not from a real depreciation in the value of the paper currency, of a sudden demand for gold in exchange for all the notes; which, of course, could not be met on the moment.

The proper reserve of bullion is usually considered as one-third of the Bank of England circulation, which is itself about one-half of the paper circulation of the kingdom. Consequently

the bullion seldom, even at an ordinarily full period, exceeds one-sixth of the paper circulation. Should panic or any other cause produce the simultaneous presentation of a large proportion of this paper circulation for gold, the demand could not be met.

Take again the case of the Savings' Banks. The Government has subjected itself to a simultaneous demand to the extent of the deposits in these banks, fifteen or sixteen millions. What would be the effect of such a demand should it occur?

5. If, after all, the danger is deemed to be of such a nature as to require an efficient provision against it—this is to be found, not in a general abandonment of the attempt to place the management of the circulation under some fixed principle; but in that power, which all Governments must necessarily possess, of exercising special interference in cases of unforeseen emergency and great State necessity.

" The consequences of sudden alarm cannot be measured. They baffle all ordinary calculation. Cash is then withdrawn, not because the circulation is excessive, but by the country banks and the town bankers, for the purpose of meeting possible demands upon them, and by the community at large, either directly from the Bank, or

indirectly through the former channels, for the purpose of hoarding, from the dread of some imaginary or contingent danger. In such a crisis, every reduction in the amount of Bank paper is so far from checking the drain, that it aggravates the general distress; because the gold which is taken out of the Bank, instead of being substituted in circulation for the notes withdrawn from it, is for the most part locked up, and thus, in proportion as the stagnant and straightened circulation wants life and aid, it becomes every day more embarrassed, whilst each new calamity produced by such a state of things, contributes to spread and increase the general apprehension. It is therefore manifest, that by a possible combination of circumstances, the Bank might be driven to part with its last guinea, not only without having checked the drain, but with the certainty of increasing it, in proportion as the amount of their notes was diminished. At such a moment, the preservation of the Bank from actual failure, though an important, is but a secondary consideration:—that of the country is the first. *The possible cases, however, which may call for such an intervention of power, are not capable of being foreseen or defined by law.* The necessity may not occur again; if it should, *the application of the remedy must be left to those who may then be*

at the head of affairs, subject to their own responsibility and to the judgment of Parliament."—Huskisson, p. 147.*

* These remarks of Mr. Huskisson furnish the true answer to the Memorial of some of the London Bankers, in which they urged the introduction of a special clause to facilitate the suspension of the operation of the Bill in periods of peculiar pressure on the money-market. To accede to such a request would be virtually to destroy the efficacy of the measure. The commencement of a drain of bullion, and consequently of pressure on the money-market, is the period at which the provisions of the Bill become practically important; and unless they are then strictly adhered to, the whole measure becomes a nullity. A general conviction that they will not be suspended on such occasions is essential, for producing throughout the community that cautious forethought and that healthy tone of self-reliance, upon which the safety and utility of the measure must materially depend. Any special provision, introduced into the Bill itself, for suspending its application at critical periods, must prove mischievous, by weakening the conviction that the measure will be adhered to, and thus checking the growth of the feelings and habits which are intimately connected with its success. For all contingencies which can be reasonably anticipated, and which are susceptible of being previously defined by law, the firm application of the provisions of the Bill is essential; and against the occurrence of those contingencies, which are not capable of being foreseen or defined by law, but which are not altogether impossible, the Bill itself affords the best protection which can be obtained. Should a crisis

ever arrive " baffling all ordinary calculation," and not amenable to the application of any ordinary principle,—a crisis involving the exhaustion of the bullion, but " not because the circulation is excessive,"—the remedy must be sought, not in the previous provisions of the law, but in the discretion of " those who may then be at the head of affairs, subject to their own responsibility and to the judgment of Parliament."

THE END.

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